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**UNITED STATES DISTRICT COURT
DISTRICT OF NEVADA**

GERALD ARMSTRONG,

Plaintiff,

Civ. No. 97/00670 - HDM (RAM)

v.

DAVID MISCAVIGE and CATHY NORMAN,
individuals; CHURCH OF SCIENTOLOGY
INTERNATIONAL, a California corporation;
the RELIGIOUS TECHNOLOGY CENTER, a
California corporation; the SEA ORGANIZATION,
a California based unincorporated entity; and the
CHURCH OF SCIENTOLOGY OF TEXAS, a
Texas corporation,

Defendants.

**REPLY DECLARATION OF
WARREN McSHANE IN
SUPPORT OF DEFENDANT
RTC'S MOTION TO DISMISS
COMPLAINT**

I, WARREN McSHANE, declare as follows:

1. I am President of defendant Religious Technology Center ("RTC"). I have personal knowledge of the facts set forth below and, if called upon to testify on such matters, would and could do so competently.

2. I previously stated, in my Declaration dated April 19, 1998, that RTC is a California corporation with its principal place of business in California. I further stated that RTC has no offices or subsidiaries in Nevada; is not qualified to conduct business in Nevada; and does not conduct business in Nevada. Moreover, RTC does not: own real or personal property in Nevada; own bank accounts in Nevada; have employees in Nevada; or have any direct or indirect contacts with Nevada. I reiterate that testimony here.

3. RTC's role in the Scientology religion is to protect the religion and maintain the purity and ethical use of the philosophy and technology of the religion. RTC performs this function through its ownership and licencing of certain trademarks and copyrights and other intellectual property pertaining to the Scientology religion.

4. RTC is a separate corporation and has its own officers, directors, and employees who manage RTC's affairs.

5. RTC maintains its own bank accounts and manages its own finances.

6. RTC is an entirely separate corporate entity from the Church of Scientology International ("CSI") and from the many local Churches of Scientology around the world. These separate local churches include the Church of Scientology of Nevada, the Church of Scientology Creative Mission of Las Vegas, and the Church of Scientology Mission of Las Vegas (collectively, the "Nevada Churches").

7. The local churches, including the Nevada Churches, have their own separate officers, directors, and employees who are responsible for the management of each individual church's affairs. RTC has no responsibility or role in the appointment of the officers and directors of the Nevada Churches.

8. The Nevada Churches are responsible for their own conduct and affairs.

9. There is no overlap between the officers, directors, and employees of RTC and those of the Nevada Churches.

10. RTC, CSI, and the local churches, including the Nevada Churches, each maintains its own bank accounts. RTC manages its own finances, as do the Nevada Churches, RTC exercises no control over the finances or bank accounts of CSI or of the Nevada Churches.

11. RTC owns certain trademarks of the Scientology religion. It does not license these to the local Nevada Churches. Rather, it licenses certain of these rights to CSI, which in turn sub-licenses certain of such rights to the Nevada Churches.

12. RTC conducts its activities in California. RTC does not supervise or manage the Nevada Churches.

13. RTC was recognized as tax exempt by the Internal Revenue Service in 1993, following a lengthy and exhaustive review of the activities and of the financial and other records of RTC and all Scientology churches. The local Nevada Churches also are recognized as exempt by the IRS.

14. In March 1998, in response to the unlawful disclosure to the press of certain documents relating to the IRS' granting of exemption in 1993, the IRS sent RTC a new letter reaffirming its exempt status, "as a separate corporate entity," and acknowledging that exemption was granted following an exhaustive review of RTC's activities and records. A true and correct copy of this letter is attached hereto as Exhibit A.

I declare under penalty of perjury of the laws of the United States and of the State of California that the foregoing is true and correct. Executed this 25th day of June, 1998 at Los Angeles, California.


WARREN McSHANE



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

ASSISTANT COMMISSIONER
(EMPLOYEE PLANS AND
EXEMPT ORGANIZATIONS)

107-00-808

Mr. Warren McShane
President
Religious Technology Center
1710 Ivar Avenue
Los Angeles, CA 90028-6313

Dear Mr. McShane:

We are aware that the recent publication by the Wall Street Journal of the text of the 1993 closing agreement, to which the Religious Technology Center ("RTC") is a party, has focused renewed attention on the IRS' determinations that various individual Churches of Scientology, including your church, separately qualify as tax-exempt under section 501(c)(3) of the Code. You have requested that we restate our position on the status of the exemption ruling and certain matters relating to the closing agreement.

First, we wish to reaffirm that the exemption determination letter issued to RTC on October 1, 1993, remains in good standing. By that letter, the Service recognized RTC, as a separate corporate entity, as exempt from federal income tax as an exclusively charitable and religious organization within the meaning of section 501(c)(3) of the Code. The determination resulted from the application of the requirements of section 501(c)(3) to the voluminous information provided in response to comprehensive and detailed requests by the Service. In order to issue that letter, the Service determined that RTC was organized and operated exclusively for charitable and religious purposes; was not engaged in illegal activities or otherwise in violation of any fundamental public policy; and that no part of RTC's net earnings inured to the benefit of any private individual. Pursuant to section 6104 of the Code, RTC's exemption application and the supporting documents on which the Service relied in making its favorable determination are available for public inspection at the IRS National Office.

Second, we wish to confirm that the execution of the closing agreement was appropriate in this case. Section 7121 of the Code authorizes the Secretary to enter into a written closing agreement with any person relating to the liability of that person in respect of any tax for any taxable period. The Service frequently employs the mechanism of a statutory closing agreement to achieve a complete resolution of any and all outstanding matters relating to a particular taxpayer. As to the Church Tax Compliance Committee, it was formed at our request, facilitating the provision of information required under the closing agreement between the Service and the various separate Scientology-related entities that received individual exemption letters.

It is the position of the Service that the closing agreement entered into with RTC constitutes and contains return information that is confidential under section 6103 of the Code and may not be disclosed except as authorized by law. You should be aware that the Service has not authorized disclosure of the text of the closing agreement.

The foregoing states our position with respect to the above matters.

Sincerely,



Evelyn A. Petschek

PROOF OF SERVICE BY MAIL

I, Sylvia Baldemor, declare:

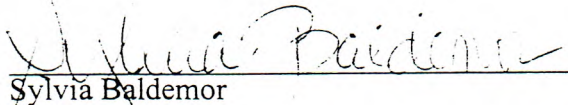
I am employed in the City of Reno, County of Washoe, State of Nevada by the law offices of Hale, Lane, Peek, Dennison, Howard, Anderson and Pearl. My business address is 100 W. Liberty Street, Tenth Floor, Reno, Nevada 89501. I am over the age of 18 years and not a party to this action.

I am readily familiar with Hale, Lane, Peek, Dennison, Howard, Anderson and Pearl's practice for collection and processing of its outgoing mail with the United States Postal Service. Such practice in the ordinary course of business provides for the deposit of all outgoing mail with the United States Postal Service on the same day it is collected and processed for mailing.

On June 26, 1998, I served the foregoing **REPLY DECLARATION OF WARREN McSHANE IN SUPPORT OF DEFENDANT RTC'S MOTION TO DISMISS COMPLAINT** by placing a true copy thereof in Hale, Lane, Peek, Dennison, Howard, Anderson and Pearl's outgoing mail in a sealed envelope, addressed as follows:

George W. Abbott, Esquire
2245-B Meridian Boulevard
P.O. Box 98
Minden, NV 89423

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct, and that this declaration was executed on June 26, 1998.


Sylvia Baldemor